

Message Text

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SUBJECT: PERUVIAN OIL - OCCIDENTAL PETROLEUM CORP. OF
PERU "AN EMBRYONIC SCAPEGOAT"

REF: LIMA 3839, 1821, 1819; STATE 112034

1. SUMMARY: AS SEPARATELY REPORTED, PRESENT INDICATIONS ARE THAT PERU'S EXPECTED OIL BOOM WILL FAIL TO MATERIALIZE AND THAT THE VIABILITY OF ANY TRANS- ANDEAN PIPELINE WILL DEPEND ON EXPLOITING THE FINDS MADE BY OCCIDENTAL AND PETROPERU. ALTHOUGH THIS IS SPECULATION, IT DOES NOT APPEAR BEYOND THE REALM OF POSSIBILITY THAT THE GOP MAY INTEND TO SUBJECT OXY TO PRESSURE, PERHAPS WITH THE EVENTUAL OPTION OF FORCING OXY OUT IF IT FAILS TO MEET PETROPERU'S DEMANDS, OR IN AN EVEN WORST-CASE SCENARIO, OF RENEGING ON THE PIPELINE PROJECT ALTOGETHER AND MAKING OXY THE SCAPEGOAT. SIGNS POINTING IN THIS DIRECTION INCLUDE:
(1) PETROPERU'S RECENT INSISTENCE THAT OXY FIND THE FINANCING FOR ITS SPUR; (2) GOP ESTIMATE THAT OXY RESERVES AMOUNT TO 500 MILLION BARRELS, AN AMOUNT CONSIDERABLY IN EXCESS OF OXY'S ESTIMATE, PERHAPS IN AN EFFORT TO SUBSTANTIATE GOP CLAIM THAT OXY'S FINDS ARE NOW "COMMERCIALY VIABLE", THEREBY TRIGGERING THE CONTRACT CLAUSE THAT OBLIGES OXY TO BUILD ITS PIPELINE; AND (3) PETROPERU INSISTENCE THAT OXY AGREE TO PAY \$6.81 PER BARREL TO TOLL
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ITS CRUDE THROUGH THE MAIN PIPELINE. IF OXY IS EITHER UN-

ABLE OR UNWILLING TO COMMIT ANOTHER \$240 MILLION TO ITS PERU GAMBLE, AND IF GOP/PETROPERU REFUSE TO MODERATE THEIR POSITION, THE STAGE WILL BE SET FOR CONFRONTATION. FINALLY, WHILE THE GULF OIL EXPROPRIATION CANNOT BE REGARDED AS SETTING A PRECEDENT FOR A GENERAL ATTACK ON PETROLEUM COMPANIES, THE COMPANIES MUST BE CONCERNED THAT THEY WILL BECOME TARGETS OF SIMILAR CAPRICIOUS OVERREACTION ON THE PART OF THE GOP WHEN PRESIDENT VELASCO--AND THE GENERAL PUBLIC--FINALLY WAKE UP TO FACT THAT HERALDED OIL BONANZA IS AN ILLUSION. END SUMMARY

2. ANTONIO TORD GOMEZ, VICE MINISTER OF ENERGY AND MINES, REAFFIRMED TO EMBASSY OFFICERS HIS EARLIER VIEW (LIMA 1821) THAT PETROPERU AND OCCIDENTAL TOGETHER HAVE SUFFICIENT RESERVES TO JUSTIFY THE PIPELINE. HE CLAIMED THAT TOGETHER THEY NOW HAVE 800 MILLION BARRELS OF PROVEN RESERVES, UP FROM HIS 600 MILLION BARREL ESTIMATE IN MARCH. FOR THE FIRST TIME HE OPENLY ADMITTED THAT MAY OTHER FOREIGN OIL COMPANIES WILL BE LEAVING DURING 1975, BUT THIS IS OF NO CONCERN TO GOP SINCE THE PIPELINE IS FEASIBLE WITHOUT THEM.

3. TORD WAS CRITICAL OF OCCIDENTAL'S NEGOTIATING POSITION, MENTIONING TWO POINTS: 1) OCCIDENTAL CAN FIND NECESSARY FINANCING FOR THE SPUR LINE (COMMENT: HE IMPLIED THAT OCCIDENTAL'S FAILURE TO COME UP WITH FINANCING IS A TACTICAL MOVE ON ITS PART); 2) OCCIDENTAL HAS STUBBORNLY REFUSED TO MAKE A FORMAL DECLARATION THAT ITS OIL FINDS ARE COMMERCIALY VIABLE. HE EXPLAINED THAT UNDER THE OCCIDENTAL-PETROPERU CONTRACT, OXY IS OBLIGED TO BUILD ITS PIPELINE (IN THIS CASE, THE SPUR, SINCE PETROPERU IS BUILDING THE MAIN LINE) IF IT MAKES SUCH AN OFFICIAL DECLARATION. TO DATE, IT HAS REFUSED TO DO SO. (COMMENT: THIS HAS BEEN CONFIRMED TO EMBOFF BY LOCAL OXY MANAGER.)

4. IN RESPONSE TO A QUESTION, TORD ALSO MAINTAINED THAT UNDER NO CIRCUMSTANCES WOULD GOP RECONSIDER BUILDING THE SPUR ENEN IF OXY CANNOT FIND THE BINANCING, GIVING THE STANDARD BALANCE OF PAYMENTS EXPLANATION THAT THE GOP COULD NOT ACCEPT FURTHER DEBT AT THIS TIME FOR A PRIVATE CONFIDENTIAL

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COMPANY'S OPERATION. (COMMENT: THIS LAST STATEMENT, EVEN IF MADE FOR TACTICAL REASONS OF HIS OWN, TENDS TO LEND WEIGHT TO RECENT SPECULATION REPORTED LIMA 4077 THAT SOME ELEMENTS IN MINES MINISTRY AND PETROPERU MAY NOT NOW BE COUNTING ON THE TRANS-ANDEAN PIPELINE, BUT WILL PRESSURE OCCIDENTAL TO MEET ITS DEMANDS, AND THEN, IF OCCIDENTAL FAILS TO DO SO, TRY TO DROP THE WHOLE PROJECT AS UNECONOMICAL, WITH, OF COURSE, PRE-

DICTABLE CONSEQUENCES FOR OCCIDENTAL (AND THE OTHER OIL COMAPNIES) HERE.

5. EMBASSY OFFICERS COMMENTED THAT MANY CONSIDERATIONS WENT INTO A DECISION ON COMMERCIAL VIABILITY, INCLUDING THE TOLL FOR THE MAIN PIPELINE. THEY POINTED OUT THAT PETROPERU'S LATES TOLL FIGURE IS \$6.81 PER BARREL, WHICH WOULD ELIMINATE ANY PROFIT FOR OXY.TORD EXPRESSED CONSIDERABLE SURPRISE AND THEN SAID HE DID NOT FOLLOW ALL THE TECHNICAL LEVEL DISCUSSIONS IN DETAIL.

6. OTHER OIL COMPANIES HAVE INFORMED AN EMBASSY OFFICER THAT OCCIDENTAL IS INDEED IN A DIFFICULT POSITION BECAUSE IT HAS MADE NO PLANS TO SHIP MOST OF ITS OIL THROUGH BRAZIL, BUT INSTEAD HAS RELIED PRINCIPALLY ON THE MAIN PIPELINE, THUS LEAVING IT VUNERABLE TO GOP PRESSURE. (COMMENT: PHILLIPS' MANAGER, FOR ONE, WAS RECALLED TO COMPANY HEADQUARTERS OVER WEEKEND TO DISCUSS STATUS OF PHILLIPS PERUVIAN DRILLING PROGRAM IN THE LIGHT OF GULF EXPROPRIATION. MANAGER TOLD EMBASSY OFFICER THAT HIS COMPANY, AND POSSIBLY SUN AND GETTY--THE OTHER TWO COMPANIES THAT PLAN TO COMPLETE THEIR FULL DRILLING SCHEDULES--WOULD CONSIDER POSSIBILITY OF BARGING THEIR POTENTIAL OIL THROUGH BRAZIL, BUT IN HIS JUDGMENT WOULD NOT CONSIDER FINANCING \$100-\$200 MILLION SPUR LINES TO PETROPERU LINE UNDER ANY CIRCUMSTANCES.)

7. COMMENT: AT THE TECHNICAL LEVEL, IT APPARENT THAT GOP REALIZES THAT JUNGLE OIL EXPLORATIONS ARE PROBABLY GOING NOWHERE AND IS PREPARING GROUNDWORK FOR SHIFT IN ITS POSITION. TORD'S BLAND ASSURANCE THAT PERU HAS 800 MILLION BARRELS OF JUNGLE RESERVES REPRESENTS POTENTIAL RESERVES, NOT PROVEN RESERVES. SINCE PETROPERU PROBABLY DOES NOT

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HAVE MORE THAN 200 MILLION BARRLES (AND WE THINK 80-100 MILLION IS MORE LIKELY, SEE LIMA 3858), PRESUMABLY THE MINISTRY OF ENERGY AND MINES NOW BELIEVES THAT OCCIDENTAL HAS AT LEAST 600 MILLION BARRELS. THE DEPARTMENT WILL RECALL THAT CCIDENTAL'S OWN OPTIMISTIC ESTIMATES ARE IN THE RANGE OF 300 MILLION BARRELS, SO THAT GOP IS EITHER LAYING FOUNDATION TO BLAME OCCIDENTAL SHOULD THINGS SOUR, AND/OR DOING SUBSTANTIAL WISHFUL THINKING.

8. ALL OF THE FOREGOING ADDS UP TO A ROUGH TIME AHEAD FOR OCCIDENTAL IN PERU. NONE OF THIS, INCIDENTALLY SHOULD COME AS MUCH OF A SURPRISE TO OCCIDENTAL, SINCE ITS OFFICIALS HAVE TOLD EMBASSY OFFICER ON SEVERAL OCCASIONS THAT OCCIDENTAL WOULD BE PRIME TARGET OF GOP, SHOULD IT BE THE ONLY FOREIGN COMPANY TO FIND OIL. WE

THINK THIS SCENARIO COULD UNFORTUNATELY BE PROVEN CORRECT,
IF NO RESOLUTION TO THE THROUGH-PUT AND FINANCING
IMPASSES IS FORTHCOMING IN THE NEAR FUTURE AND
THE GOP DECIDES TO ABANDON THE TRANS-ANDEAN PIPELINE
ALTOGETHER.
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